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SUBJECT: Dubai-based Companies Transition to New Wage Protection System

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Consulate General, Dubai; REASON: 1.4(B), (D)

¶1. (C) Summary: The UAE Ministry of Labor (MOL) issued a decree on the "protection of wages" in September 2009 affecting all the emirates, including Dubai. The Wage Protection System (WPS) is an electronic salary payment system meant to shield the UAE's massive foreign labor population from delayed salary payments. Discussions with a number of the largest private exchange firms authorized by the government to implement the system highlight the uneven compliance to date of this new system, due in part to insufficient guidance to companies and banks. Further uncertainty has arisen over the applicability of the decree to companies located in Dubai's many free zones, and whether the requirement applies to companies that pay their employees offshore. Companies already using one of the banks on the approved agents list did not have any problems complying with the WPS. End Summary.

¶2. (C) The WPS is an electronic salary transfer system via approved banks and exchange houses designed to protect workers' wages throughout the UAE. The Central Bank created the system that enables the Ministry of Labor to maintain a database of all registered wage payments electronically, thus ensuring all workers receive their salaries. (Note: The WPS system is partly a response to reports that some UAE employers routinely withheld and/or delayed salary payments to foreign workers, particularly unskilled workers, leading to charges of indentured servitude practiced in the UAE. End Note.) The MOL deadlines for employers to adopt the WPS are as follows: Companies with more than 100 employees were required to comply by November 30, 2009; companies with 15 to 99 employees must comply by February 28, 2010; and companies with fewer than 15 employees must comply by May 31, 2010. Speaking to a group of major employers in Abu Dhabi late October, Minister of Labor Saqr Ghobash made it clear there were no plans to back off this implementation schedule; however HSBC Manager for Global Payments and Cash Management Antonio Vidal told PolOff November 24 that the MOL is informally issuing waivers for companies "in the application implementation process."

¶3. (SBU) PolEcon Specialist spoke with several large Dubai-based companies to survey their transition to the WPS. While some companies have already transferred the majority of their employees to the new system, for most it remains a work in progress. Several firms are still working with their respective banks to set up the electronic transfer systems. Many of the approximate 74 agents approved to implement the system are unprepared, and, in some cases, have not yet established detailed procedures such as setting transaction fees. (Note: According to the Decree, companies are responsible for the associated costs of the WPS; employers are not to pass the costs on to their employees. End Note). Al Ghurair

Exchange Marketing Manager Imad Ul Malik explained to PolOff that the Al Ghurair Exchange charges its clients a fee for salary payment transactions and has a mechanism to ensure the client does not deduct the fee from the employee's salary.

¶4. (C) Particular complications have arisen in transferring lower-paid employees who do not have bank accounts to WPS, arguably the target audience for the scheme. This is not easily resolvable given that many such employees do not have the minimum balance required to open an account, and banks see little up-side in extending facilities to such workers. Low-salary laborers who do not have bank accounts are able to receive their salary by cash or pre-paid card. Vidal and Ul Malik told PolOff that banks will not open accounts for low-salary laborers because banks do not want to maintain accounts for low balances and they do not want laborers coming inside their branches. (Note: A bank can be both the bank and agent for a company; whereas an exchange house is only an agent. All companies need have an account with an approved bank. A bank can either transfer the money or outsource to another approved agent such as in cases to disburse cash payment for low-salary employees. End Note.)

¶5. (C) The burden of the WPS has been largely taken on by the banks. Vidal said that the MOL provided banks with a basic computer application that only allows for manual data input with an interface that is incompatible with banks' systems. Vidal said that some banks such as Mashreq and Citibank have purchased newly developed applications especially for WPS, but that HSBC has

decided to develop its own application. The financial burden to develop the application was in the USD 100,000's.

¶6. (C) Vidal opined that the MOL probably does not have the infrastructure to automatically verify any of the data. The data received by the Central bank does not verify salary, but validates only the employee's personal number and the establishment number. He surmised that the data is with the MOL in case someone raises an issue for an investigation or auditing. He believes it is nearly impossible to verify the correct salary amount as salaries change month-to-month for employees. Companies are supposed to submit data to the MOL only for employees getting paid each month. Data is not submitted on those employees not paid.

¶7. (C) The decree implementing the WPS is ambiguous as it relates to companies in Dubai's free zones since free zone companies are not directly registered with the MOL. Free zone companies report they do not know if, when or how they must comply with WPS. Poloff met with General Electric's HR Operations Leader and its Employee Services Leader to discuss its transition to the WPS. GE has implemented the WPS in Dubai proper, but remains unsure how the system affects the approximately 30 percent of GE's employees who work out of GE's regional headquarters building within the Dubai Media City free zone. These employees are often paid in their home country. The law firm Fulbright and Jaworski also acknowledge that private sector employers who have employees with a home office contract as well as a MOL contract may encounter accounting issues. (Note. With a home office contract, the employee is paid offshore. End Note.) The complexity of these employees' situations makes it difficult for GE's HR staff as well as other private firms to understand the decree as MOL guidance has been unclear.

¶8. (C) Comment: In general, Dubai-based companies are undergoing a smooth transition to the WPS when their employees have had pre-existing relationships with one of the approved banks and have only locally-employed, locally-paid employees. However, companies with employees who are under home office contracts are concerned because of the potential legal and administrative burden associated

with WPS compliance when guidance is not clear regarding employees with offshore accounts. Smaller companies with employees without bank accounts and employees who are hesitant to open new bank accounts probably will continue to find the transition to the WPS more arduous. As smaller companies are asked to implement the system in the coming months, the MOL is likely to be called upon to offer more hand holding than that required by firms with greater resources. At the end of the day, and despite the growing pains associated with this new requirement, the UAE should be commended for taking these initial steps towards protection of the foreign labor force, in particular its lowest-wage workers. End Comment.

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